



CRC Notes



2008-01__

A publication of the Citizens Research Council of Michigan

February 2008

IMPROVING THE EFFICIENCY OF MICHIGAN'S HIGHWAY REVENUE SHARING PROGRAM

This CRC Note summarizes Memorandum 1085, of the same title. Public Act 221 of 2007 created a task force to examine and recommend alternatives to fuel taxes as a source of funding for transportation in Michigan. A preliminary report of the task force's findings is due by October 31, 2008. Memorandum 1085 is intended to help illuminate concerns surrounding the efficiency of the current highway revenue sharing program and options to improve the sharing of limited resources with local road agencies in the future.

Over \$1 billion in annual state transportation tax receipts are shared with local road agencies under provisions of Public Act 51 of 1951 as amended (commonly called PA 51). Despite considerable changes in the use of Michigan's highway system over the last half-century, there have been very few substantive modifications to the PA 51 statutory allocation of state-raised revenues to county and municipal road agencies. As a result, the system of distributing state tax revenues to locals is unable to address highway needs across Michigan in the most efficient manner. A critical flaw of the system is that in order to get dollars to the areas with the greatest need and with the most travel, a significant level of resources has to be sent to areas of the state where roads experience less travel and do not exhibit as high a need.

The current PA 51 formulas use far from perfect measures of highway need and utilization (e.g., vehicle registration tax collections, population, and mileage) to distribute state taxes to local road agencies for construction and maintenance services. A measure such as miles traveled reflects highway usage much better than the surrogates that have been used to date.

Memorandum 1085 presents three illustrative scenarios of alternative ways to distribute state transportation revenues among county road commissions using road usage as opposed to road mileage. As is the case with any revenue sharing program, changes result in "winners" and "losers" compared with the status quo. Without the benefit of additional state-levied transportation taxes to distribute, infusing road usage metrics into the allocation formulas result in funding losses to a number of counties (65), some of which are significant (i.e., over 25 percent). Overall, however, the 18 counties that realize an increase in

their state funding, nearly all of which are urban, comprise nearly three-quarters of the State's population.

Changes to Michigan's transportation revenue sharing program can be made in tandem with an increase in highway revenues, thereby mitigating the negative fiscal effects at the local level. Under current statutory provisions, additional funding will provide each county with the same percentage increase, and perpetuate the inefficiencies associated with the current formulas. In Memo 1085, the Research Council highlights two alternatives for allocating additional state-levied highway revenues that would be generated under a recent proposal to raise Michigan fuel taxes. Both substitute highway use (i.e., miles traveled) for route mileage to distribute the new funds among individual counties. Not surprisingly, the same 18 counties do better under the alternative than they do under the current formula while the remaining counties, although realizing funding increases, do not do as well as they would under the current system.

As public attention turns to the need to increase funding for Michigan highways, equal consideration should be given to ensuring the most efficient use of the limited resources available each year. Because the fiscal effects associated with changing the PA 51 formula always will result in "winners" and "losers", the optimal time to consider modifications is when there are additional resources available to mitigate the negative fiscal impacts that would result if formula changes were made absent new dollars to distribute. The motoring public will be better served if the new system used to distribute limited state highway dollars is as efficient as possible.

Read the full paper at www.crcmich.org/PUBLICAT/2000s/2008/memo1085.pdf.



CITIZENS RESEARCH COUNCIL OF MICHIGAN

MAIN OFFICE 38777 West Six Mile Road, Suite 208 • Livonia, MI 48152-3974 • 734-542-8001 • Fax 734-542-8004

LANSING OFFICE 124 West Allegan, Suite 1502 • Lansing, MI 48933 • 517-485-9444 • Fax 517-485-0423

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